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Larry J. Hand, Jr.  
Assistant General Counsel  
Legal Services - Regulatory

2018 FEB 15 AM 8:53

LA PUBLIC SERVICE  
COMMISSION

February 14, 2018

***Via Facsimile and US Mail***

Brandon Frey  
Office of the Secretary  
Louisiana Public Service Commission  
Galvez Building, 12<sup>th</sup> Floor  
602 North Fifth Street  
Baton Rouge, LA 70802-5312

Re: Report Regarding Impact of the Tax Cut and Jobs Act of 2017

Dear Brandon:

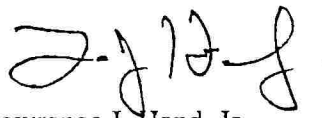
At the December 2017 Commission Business & Executive ("B&E"), a directive was adopted requiring utilities to provide reports at the February 2018 B&E regarding savings for ratepayers as a result of the new federal tax laws taking effect in 2018. At the January 2018 B&E, Chairman Skrmetta requested that utilities file written reports on February 14<sup>th</sup>, and provide verbal reports at the February 21<sup>st</sup> B&E. Accordingly, attached are an original and two copies of Entergy Louisiana, LLC's ("ELL") report regarding the impact of the Tax Cut and Jobs Act of 2017. Please return a date stamped copy in the enclosed self-addressed envelope.

As you will see, the report discusses the high level effects of the tax rate change, but additional detail has been provided on a confidential basis to the LPSC Staff and intervenors as part of settlement discussions on ELL's pending request to extend and modify its formula rate plan in Docket No. U-34631.

Mr. Frey  
February 14, 2018  
Page 2

Thank you for your assistance in this matter. Please call me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Hand, Jr.", with a stylized flourish at the end.

Lawrence J. Hand, Jr.

cc: Chairman Eric F. Skrmetta  
Vice-Chairman Mike Francis  
Commissioner Craig Greene  
Commissioner Lambert C. Boissiere, III  
Commissioner Foster L. Campbell  
Melissa Watson  
Phillip May  
Mark Kleehammer  
Jonathan Bourg  
Alyssa Maurice Anderson



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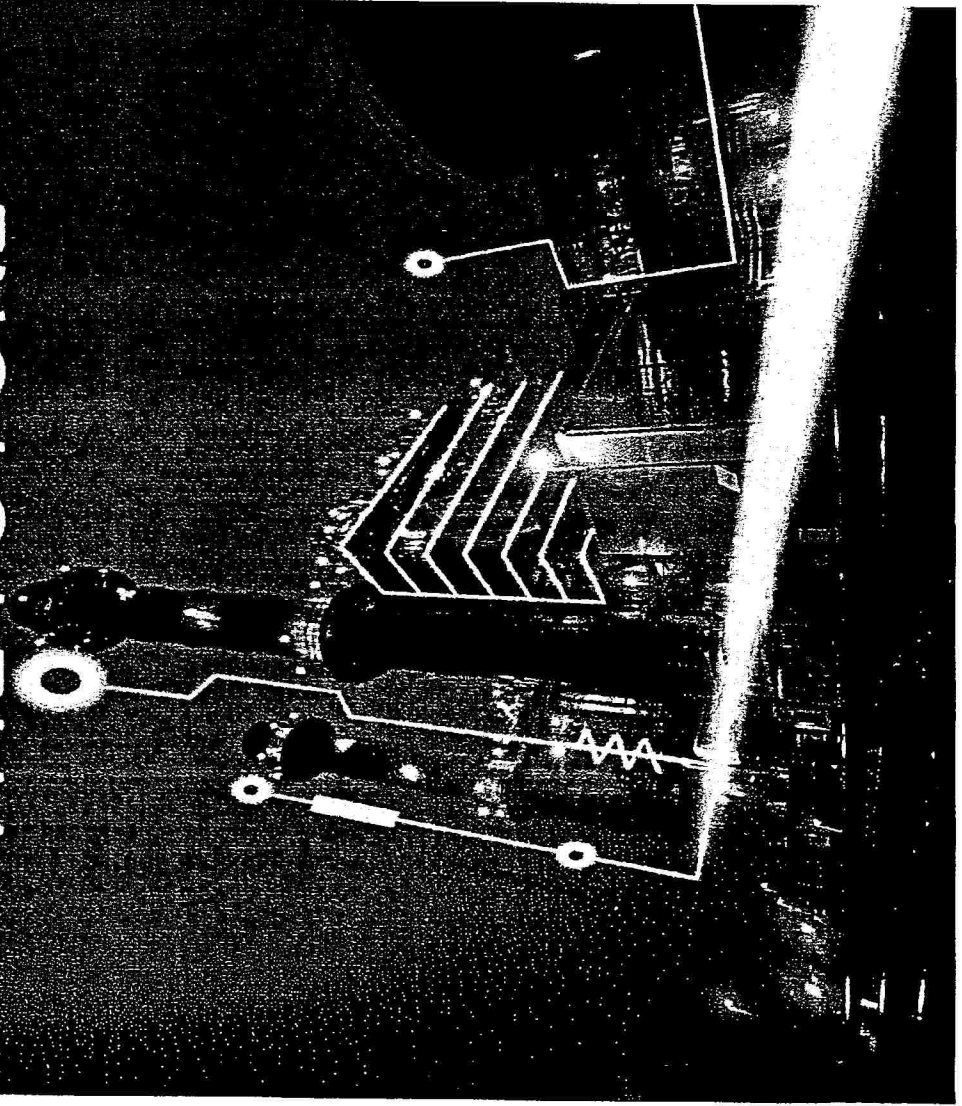
CONNECTED TO  
THE FUTURE

**Entergy Louisiana**

**Tax Reform**

**LPSC Business &  
Executive Session**

**February 21, 2017**



# How Will Tax Reform Affect ELL's Base Rates?

*Changes to income tax expense will reduce rates*

- How are ELL's base rates set?
  - ELL is in the rate effective period of the last year of its Formula Rate Plan ("FRP"), through which ELL's base rates have been adjusted annually, each September
  - ELL is currently working with LPSC Staff and other interested parties to extend that FRP such that the next base rate change would occur in September 2018; otherwise, ELL would file a base rate case to prospectively determine just and reasonable rates
- Income Tax Expense
  - ELL's base rates were last adjusted under the FRP in September 2017 and reflect an income tax expense that was calculated using the then-effective statutory federal income tax rate of 35%
  - If the FRP is extended, ELL's next adjustment of rates will reflect a federal income tax rate of 21% (and all other changes in cost and revenue), and the resulting decrease in income tax expense will result in rates lower than they otherwise would have been (all else being equal)
    - As an illustrative example, using its 2016 FRP filing as a basis, and calculating the effect that the change in the pre-tax WACC (based on the lower tax rate) has on ELL's return on rate base, the reduction of income tax expense would have been approximately \$110 million annually
  - In the context of its FRP renewal discussions, ELL is working closely with LPSC Staff and other interested parties to determine exactly when the actual reduction will be reflected in rates



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# Deferred Taxes

*What are they and how will they change?*

- What are Deferred Taxes?
  - Deferred taxes represent the cumulative difference between income tax expense used for financial reporting purposes and the income tax shown on the tax return
    - These two figures are different primarily due to certain items being more rapidly deducted for income tax purposes than they are for financial reporting purposes
  - Under normalization, a utility calculates regulatory tax expense based on how tax expense is recognized for book purposes, irrespective of tax expense recognized on the utility's tax return
    - The book tax expense in excess of that due on the tax return is recorded as deferred tax expense and a liability (accumulated deferred income tax, or ADIT) is established for this amount
    - It is a deferred tax expense liability because the expense is not eliminated; it is simply deferred
  - In turn, the utility reduces its rate base by the ADIT
  - The net effect of tax normalization is like an interest-free loan supplied by the US government that helps fund new utility infrastructure

## • How Does Tax Reform Affect Deferred Taxes?

- ELL currently has an ADIT balance, which it previously included in the rate making formula based on the federal income tax rate of 35%
- This ADIT balance was reduced upon the enactment of tax reform legislation in December 2017 to reflect the new federal income tax rate of 21%
- The reduction in ADIT will benefit customers over time, and ELL is working closely with LPSC Staff to determine when and how the excess deferred income taxes will be reflected in rates



## Other Effects of Tax Law Changes

### *Changes to Customer Credits Resulting from Tax Sharing Agreements*

- What are tax sharing agreements?

- Over the years, ELL has worked with the LPSC Staff to take certain tax positions to minimize its tax obligation, which have translated into significant benefits for its customers
- These tax sharing agreements relate to things such as the Act 55 financing of the costs incurred to restore its system following Hurricanes Katrina/Rita, Gustav/Ike, and Isaac
- In these agreements, the Company agreed, among other things, to guarantee a certain level of benefits, bear the risk that the tax position would succeed, and share certain additional benefits with customers in the event it was successful
  - This sharing of benefits leads to customer credits that are reflected in the Company's Fuel Adjustment Clause and in certain other riders

- How would tax law affect these agreements?

- The effect of the change in tax law is governed by the terms and conditions of each of the tax sharing agreements entered into by ELL and the LPSC Staff and approved by the Commission
- In some instances, the change in tax law will lead to a change in the way those credits are provided to customers as a result of the reduced federal income tax rate
- Again, the Company is working closely with LPSC Staff to determine how these customer credits will be adjusted



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## Summary

### *Tax Reform will benefit Customers*

- Tax reform will affect ELL customer rates in several ways, with the overall result being a benefit to customers
- As with all sound ratemaking, decisions regarding the manner and timing of reflecting these adjustments in rates must balance the interests of customers and the utility and consider such things as other anticipated rate changes and the effect on the utility's financial health and credit metrics
- ELL is working closely with the LPSC Staff and interested intervenors to determine the best way to balance these interests



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Entergy Services, Inc.  
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New Orleans, LA 70113

**Fax****LEGAL SERVICES DEPARTMENT - REGULATORY**

To:	Brandon Frey	From:	Larry Hand
Fax:	(225) 342-4087	Fax:	(504) 576-5579
Phone:	(225) 342-4427	Phone:	(504) 576-6825
Date:	September 11, 2017	Pages: (excluding cover page)	7
Re:	Report Regarding Impact of the Tax Cut and Jobs Act of 2017		

## Comments:

Fax filing of Entergy Louisiana, LLC's report regarding the impact of the Tax Cut and Jobs Act of 2017.

ROUTE TO

DEPT. OGCDATE 2/15

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